

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 IO-13 ISO-00 AID-05 CIAE-00 COME-00

EB-07 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04

OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 L-03 H-02 PA-02 PRS-01 DODE-00

AGR-10 /133 W

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R 221707Z JUL 76

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 3223

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY TOKYO

USDEL MTN GENEVA

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL BORDEAUX

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PASS TREASURY FEDERAL RESERVE, COMMERCE

E. O. 11652: N/A

TAGS: EALR, EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 19942, JULY 8, 1976

1. SUMMARY--

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ALTHOUGH RECENT ECONOMIC NEWS IN FRANCE CONTAINS

SOME PLUSES--NEAR BALANCE IN FOREIGN TRADE, INCREASE IN INDUSTRIAL OUTPUT IN JUNE, IMPROVED FINANCIAL SITUATION OF FIRMS AND FEWER BUSINESS FAILURES--THE MEDIUM TERM PROSPECTS FOR THE ECONOMY ARE NOT PROMISING. THE ANNUAL RATE OF INFLATION IS PREDICTED TO INCREASE TO OVER 11 PERCENT WHILE THE UNEMPLOYMENT SITUATION IS NOT EXPECTED TO IMPROVE WITH VIRTUALLY NO INCREASE IN REAL INVESTMENT.

2. MIXED FORECASTS FOR ECONOMIC PROSPECTS
FOR REMAINDER OF 1976--

A JUST RELEASED BOF REPORT IS FAIRLY OPTIMISTIC ABOUT THE ECONOMIC PROSPECTS FOR FRANCE FOR THE SECOND HALF OF THIS YEAR. ACCORDING TO THE REPORT, THE GENERAL LEVEL OF ORDER BOOKS ASSURES THE MAINTENANCE OF INDUSTRIAL ACTIVITY UNTIL AUTUMN AND EVEN UNTIL THE END OF THE YEAR. A LARGE NUMBER OF THE HEADS OF ENTERPRISES ARE APPREHENSIVE, HOWEVER, OF THE CONSEQUENCES WHICH MEASURES DESIGNED TO COMBAT INFLATIONARY PRESSURES COULD HAVE ON THEIR FINANCIAL SITUATIONS, WHICH HAVE JUST BEGUN TO IMPROVE.

INSEE AND THE CHAMBER OF COMMERCE IN RECENTLY RELEASED REPORTS ARE MORE GUARDED IN THEIR ASSESSMENTS OF THE ECONOMIC PROSPECTS FOR THE REMAINDER OF THIS YEAR. INSEE WARNS THAT INFLATION THREATENS TO ACCELERATE IN FRANCE WHILE UNEMPLOYMENT MAY REMAIN STATIONARY. INCREASING WAGE COSTS AND THE DESIRE TO INCREASE OR REESTABLISH PROFIT MARGINS WILL CONTRIBUTE TO FURTHER PRICE INCREASES SO THAT THE INCREASE OF PRICES FOR 1976 MAY BE SLIGHTLY HIGHER THAN 11 PERCENT. INDUSTRIAL PRODUCTION IS EXPECTED TO SLOW DOWN GRADUALLY IN THE SECOND HALF OF THE YEAR.

HEADS OF ENTERPRISES INTERVIEWED BY INSEE ESTIMATE THAT THEIR INVESTMENT BUDGETS FOR THIS YEAR CORRESPOND TO AN INCREASE OF 9 PERCENT ABOUT THEIR INVESTMENT EXPENDITURES FOR 1975. TAKING ACCOUNT OF THE INCREASE
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IN THE PRICES OF CAPITAL GOODS, THE INCREASE IN REAL INVESTMENT WILL ONLY BE ABOUT 1 PERCENT FOR THIS YEAR. THIS REPRESENTS AN INCREASE, HOWEVER, FROM MARCH WHEN INDUSTRIALISTS INDICATED ONLY A 6 PERCENT INCREASE IN INVESTMENT EXPENDITURES. THE REVISED INCREASES ARE PRIMARILY ON THE PART OF SMALL ENTERPRISES AND INDUSTRIES PRODUCING CONSUMER GOODS. THE INVESTMENTS OF LARGE ENTERPRISES REMAIN GENERALLY WEAK. THE FIRST

ESTIMATES FOR INVESTMENT EXPENDITURE IN 1977 INDICATE
A NOMINAL INCREASE OF 10 PERCENT, BUT INSEE CONFIRMS
THAT THERE WILL PROBABLY BE NO INCREASE IN REAL INVEST-
MENT.

THE CHAMBER OF COMMERCE ESTIMATES THAT THE RATE
OF INFLATION MAY BE EVEN HIGHER THAN 11.5 PERCENT
BECAUSE OF THE CONSEQUENCES OF THE DROUGHT, THE
INCREASE IN PRICES OF PRIMARY GOODS, AND THE INCREASE
OF CERTAIN PUBLIC TARIFFS IN JULY (I.E., TRANSPORTA-
TION, RENTS, TOBACCO). THE EFFECTS OF THE DROUGHT
MAY RESULT IN A HALF POINT DECREASE IN THE GROSS
INTERNAL PRODUCT. THE RATE OF GROWTH FOR 1976 MAY

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INFO OCT-01 EA-09 IO-13 ISO-00 SP-02 USIA-15 AID-05 EB-07

NSC-05 CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06

LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 DODE-00 AGR-10

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R 221707Z JUL 76

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 3224

INFO AMEMBASSY BONN

AMEMBASSY LONDON

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USDEL MTN GENEVA

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BE BETWEEN 5 AND 6 PERCENT.

3. INDUSTRIAL OUTPUT STAGNATES IN MAY BUT
REGISTERS A SMALL INCREASE IN JUNE--

FRENCH INDUSTRIAL OUTPUT IN MAY REMAINED AT THE
SAME LEVEL AS IN MARCH AND APRIL. REVISED INSEE
INDEX OF INDUSTRIAL OUTPUT (SEASONALLY ADJUSTED,
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1970 EQUALS 100) IS 120 IN JANUARY AND FEBRUARY AND
121 IN MARCH, APRIL AND MAY. YEAR-OVER-YEAR INCREASE
IN PRODUCTION INDEX WAS 12.0 PERCENT.

THE ONLY SECTOR IN WHICH INDUSTRIAL OUTPUT
INCREASED IN MAY WAS CONSUMER GOODS WHICH REGISTERED
AN INCREASE OF 2.3 PERCENT OVER APRIL. THE OUTPUT
OF INTERMEDIATE GOODS INDUSTRIES REMAINED CONSTANT,
WHILE THE OUTPUT OF CAPITAL GOODS INDUSTRIES AND
ENERGY RELATED INDUSTRIES DECREASED BY 1.5 PERCENT
AND 3.5 PERCENT RESPECTIVELY. INSEE EXPLAINED THE
STAGNATION IN INDUSTRIAL OUTPUT AS BEING PRIMARILY DUE
TO A COAL MINING STRIKE AND A FALL IN THE PRODUCTION
OF ELECTRICITY.

EARLY INDICATIONS FROM THE MINISTRY OF FINANCE
AND THE BANK OF FRANCE ARE THAT INDUSTRIAL PRODUCTION
SHOWED A SMALL INCREASE IN JUNE. PRODUCTION WAS
ESPECIALLY FAVORED BY THE SMALL NUMBER OF WORK INTER-
RUPTIONS. PRODUCTION OF INTERMEDIATE GOODS, WHICH
HAS STAGNATED DURING APRIL AND MAY, MAY HAVE
REGISTERED A SMALL INCREASE IN JUNE.

DOMESTIC DEMAND REMAINED LIVELY IN JUNE AND
FOREIGN ORDERS WERE SOMEWHAT HIGHER THAN IN MAY.
DOMESTIC DEMAND WAS PARTICULARLY STIMULATED BY THE
NECESSITY OF FRENCH CONSUMERS TO STOCK UP FOR THE
VACATION PERIOD AND ALSO, WITHOUT DOUBT, THROUGH
THEIR FEAR OF FURTHER PRICE INCREASES. AS A RESULT,
THE QUANTITIES PRODUCED REMAINED BELOW DEMAND SO
THAT STOCKS DECREASED TO A LEVEL BELOW NORMAL.

4. JUNE FOREIGN TRADE CLOSE TO EQUILIBRIUM--

FRANCE'S FOREIGN TRADE DEFICIT DECLINED TO 104 MILLION FRANCS IN JUNE FROM 762 MILLION FRANCS IN MAY. EXPORTS INCREASED BY 5.4 PERCENT TO 23,192 BILLION FRANCS WHILE IMPORTS INCREASED BY ONLY 2.3 PERCENT TO 23,296 BILLION FRANCS. SEASONALLY ADJUSTED RATE OF EXPORT COVER INCREASED FROM 96.7 PERCENT IN MAY TO 99.6 PERCENT IN JUNE.

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FRENCH FOREIGN TRADE
(SEASONALLY ADJUSTED; IN BILLIONS OF FRANCS, FOB-FOB)

| | JAN. | FEB. | MARCH | APR. | MAY | JUNE |
|---------|------|------|-------|------|------|------|
| IMPORTS | 20.9 | 21.7 | 21.8 | 22.3 | 22.8 | 23.3 |
| EXPORTS | 20.0 | 21.4 | 20.9 | 22.0 | 22.0 | 23.2 |
| BALANCE | -0.9 | -0.2 | -0.9 | -0.3 | -0.8 | -0.1 |
| X/M | 95.6 | 98.9 | 96.1 | 98.5 | 96.7 | 99.6 |

5. NUMBER OF UNEMPLOYED INCREASES IN JUNE--

FOR THE SECOND CONSECUTIVE MONTH THE NUMBER OF REGISTERED UNEMPLOYED IN FRANCE (SEASONALLY ADJUSTED) SHOWED AN INCREASE FROM 961,100 IN MAY TO 966,700 IN JUNE. UNFILLED JOB OFFERS INCREASED BY 3.2 PERCENT TO 138,700 AT END OF JUNE. WE ESTIMATE SEASONALLY ADJUSTED UNEMPLOYMENT TO BE ROUGHLY 4.4 PERCENT OF LABOR FORCE IN JUNE (SEE PARIS A-322 OF 1975 FOR METHODOLOGY).

LABOR MARKET INDICATORS
(SEASONALLY ADJUSTED; IN THOUSANDS, END OF MONTH)

| | JAN. | FEB. | MARCH | APR. | MAY | JUNE |
|---------------|-------|-------|-------|-------|-------|-------|
| REGISTERED | 928.9 | 925.0 | 951.1 | 944.0 | 961.1 | 966.7 |
| UNFILLED | | | | | | |
| JOB OFFERS | 110.2 | 110.1 | 121.9 | 129.4 | 134.4 | 138.7 |
| UNEMPLOYMENT | | | | | | |
| AS PERCENT OF | 4.2 | 4.2 | 4.3 | 4.3 | 4.3 | 4.4 |
| LABOR FORCE | | | | | | |

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NSC-05 CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06

LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 DODE-00 AGR-10

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R 221707Z JUL 76

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 3225

INFO AMEMBASSY BONN

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(ESTIMATED)

6. MONEY SUPPLY REGISTERS A 2.1 PERCENT INCREASE FOR
APRIL--

AS REPORTED IN REFTTEL, THE MONEY SUPPLY, BROADLY
DEFINED (M2), INCREASED 2.1 PERCENT DURING APRIL TO
801.2 BILLION FRANCS, ON A SEASONALLY ADJUSTED BASIS.
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M1 ROSE TO 425.9 BILLION FRANCS (UP 0.9 PERCENT FROM MARCH) AND NEAR MONIES ROSE TO 373.6 BILLION FRANS (UP 1.9 PERCENT).

MONEY SUPPLY
(SEASONALLY ADJUSTED, BILLIONS OF FRANCS)

| | JAN. | FEB. | MARCH | APRIL |
|------------------|-------|--------|--------|---------------|
| M1 | 412.4 | 419.4 | 421.9 | 425.9 |
| (PERCENT CHANGE) | | (#1.3) | (#1.7) | (#0.6) (#0.9) |
| NEAR MONIES | 355.3 | 361.9 | 366.7 | 373.6 |
| (PERCENT CHANGE) | | (#1.8) | (#1.9) | (#1.3) (#1.9) |
| M2 | 769.8 | 782.7 | 784.5 | 801.2 |
| (PERCENT CHANGE) | | (#2.0) | (#1.7) | (#0.2) (#2.1) |

7. INVESTMENTS OF NATIONALIZED COMPANIES
SCHEDULED TO INCREASE BY 14.4 PERCENT IN 1977--

THE RECENTLY APPROVED INVESTMENT PROGRAM OF NATIONAL ENTERPRISES AUTHORIZES A MAXIMUM EXPENDITURE OF 32,559.3 MILLION FRANCS IN 1977, AS COMPARED TO 28,459.2 MILLION IN 1976. THE NATIONALIZED COMPANIES ARE ALSO AUTHORIZED TO BORROW 28,409.9 MILLION FRANCS TO FINANCE THIS INVESTMENT PROGRAM, AN INCREASE OF 3,889.4 MILLION FRANCS OVER 1976.

8. FRENCH FOREIGN NET INDEBTEDNESS SHOWS
ONLY MODEST INCREASE SINCE 1974--

ACCORDING TO MINISTER FOURCADE, RECENT TALK OF THE EXCESSIVE NATURE OF THE FOREIGN INDEBTEDNESS OF FRENCH PUBLIC AND PRIVATE ENTERPRISES IS EXAGGERATED. SINCE JANUARY 1974, NET FOREIGN INDEBTEDNESS HAS INCREASED BY ONLY 9.7 BILLION FRANCS, THE EQUIVALENT OF LESS THAN 15 DAYS OF EXPORT RECEIPTS. DURING 1974 AND 1975 MEDIUM AND LONG TERM FOREIGN DEBT INCREASED BY 29.7 BILLION FRANCS WHILE CREDITS ABROAD DURING THIS PERIOD INCREASED BY 20 BILLION FRANCS, PRIMARILY BECAUSE OF THE LARGE INCREASE IN EXPORT CREDITS. IN FOURCADE'S UNCLASSIFIED

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WORDS: "THE FOREIGN INDEBTEDNESS, VERY LOW AT THE BEGINNING OF 1974, REMAINS STILL AT A VERY MODEST LEVEL ESPECIALLY WHEN COMPARED TO THAT OF OUR PRINCIPAL TRADING PARTNERS."

9. 1975 NATIONAL ACCOUNTS DATA RELEASE--

THE PROVISIONAL DATA, RECENTLY RELEASED BY INSEE,
FOR 1975 NATIONAL ACCOUNTS ARE:

FRENCH NATIONAL ACCOUNTS SUMMARY
(IN MILLIONS OF FRANCS AT CURRENT PRICES)

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INFO OCT-01 EA-09 IO-13 ISO-00 SP-02 USIA-15 AID-05 EB-07

NSC-05 CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06

LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 DODE-00 AGR-10

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R 221707Z JUL 76
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 3226
INFO AMEMBASSY BONN
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AMEMBASSY ROME
AMEMBASSY TOKYO
USDEL MTN GENEVA
USMISSION EC BRUSSELS
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1974 1975

| | | |
|----------------------------|-----------|-----------|
| 1. PRIVATE CONSUMPTION (1) | 767,443 | 889,451 |
| 2. GOVERNMENT PURCHASES | 44,347 | 49,225 |
| 3. GROSS FIXED INVESTMENT | 347,682 | 368,101 |
| 4. FINAL DOMESTIC DEMAND | 1,159,472 | 1,306,777 |
| 5. STOCKBUILDING | 27,151 | -42,500 |

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| | | |
|------------------------------|-----------|-----------|
| 6. EXPORTS, F.O.B., AND | | |
| NET SERVICES | 238,751 | 246,200 |
| 7. IMPORTS, C.I.F. | 257,136 | 234,150 |
| 8. NET FOREIGN BALANCE | -18,385 | 12,050 |
| 9. GROSS INTERNAL PRODUCT(2) | 1,168,238 | 1,276,327 |

FOOTNOTES:

- (1) INCLUDES CONSUMPTION BY FINANCIAL INSTITUTIONS;
EXCLUDES RESIDENTIAL CONSTRUCTION BY GENERAL
GOVERNMENT AND FINANCIAL INSTITUTIONS.
- (2) "PRODUCTION INTERIEURE BRUTE". A MEASURE OF TOTAL
OUTPUT WHICH IS PECULIAR TO FRENCH NATIONAL
ACCOUNTS, GROSS INTERNAL PRODUCT IS ESSENTIALLY
EQUAL TO GROSS DOMESTIC PRODUCT LESS SERVICES
PERFORMED BY GOVERNMENT EMPLOYEES, DOMESTIC
SERVANTS, AND PRIVATE INSTITUTIONAL EMPLOYEES.

10. OTHER REPORTS SUBMITTED DURING THE PERIOD--

TELEGRAMS

PARIS 21143, PARIS FOREX MARKET 7/20/76
PARIS 21014, WORLD BANK/IMF EXECUTIVE 7/19/76
DIRECTORS AND ALTERNATES SALARIES
PARIS 21006, PARIS FOREX MARKET 7/19/76
PARIS 20799, PARIS FOREX MARKET 7/16/76
PARIS 20762, PARIS FOREX MARKET 7/16/76
PARIS 20759, REQUEST FOR INFORMATION 7/16/76
ON ZURICH TRUST FUND
PARIS 20184, INSEE FORESEES MORE RAPID 7/9/76
INFLATION, SLOWER GROWTH
PARIS 20404, PARIS FOREX MARKET 7/12/76
PARIS 20403, PARIS FOREX MARKET 7/12/76
GAMMON

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Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
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Margaret P. Grafeld
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04 MAY 2006

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To: STATE
Type: TE
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